

Utah Money Management Council

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MONEY MANAGEMENT COUNCIL MEETING
THURSDAY JANUARY 15, 2015
AT THE UTAH STATE TREASURER'S OFFICE
350 NORTH STATE STREET
SUITE 180
3:00 PM
Revised

A G E N D A

1. APPROVAL OF MINUTES OF THE DECEMBER 18, 2014
2. MONTHLY REPORTS
 - A) Division of Securities
 - B) Department of Financial Institutions
 - C) Deposit and Investment report update
 - i) Reports with questions
3. OVERVIEW OF NEW CAPITAL RULES AND HOW THEY AFFECT RULE 11
4. REQUEST FOR A CHANGE IN RULE 4-BONDING OF PUBLIC TREASURERS
5. OTHER BUSINESS AS NEEDED
6. SCHEDULE NEXT MEETING AND ADJOURN

In compliance with the Americans with Disabilities Act, individuals needing special accommodations during this meeting should notify Kathy Wilkey, Administrative Assistant, at Room 180 State Capitol Building, (801) 538-1468.

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STATE MONEY MANAGEMENT COUNCIL-MINUTES
THURSDAY DECEMBER 18, 2014

The regular meeting of the State Money Management Council was held in the Offices of the Utah State Treasurer, 350 North State Street, Suite 180, at 3:00 p.m., Thursday December 18, 2014. In attendance were:

Mark Watkins, Chair
Kirt Slaugh, Vice Chair
John Bond
Doug DeFries
Marina Scott
Ann Pedroza, Staff
David Damschen, Deputy State Treasurer
Michael Green, Attorney General's Office
Daryl Rudé, Department of Financial Institutions
Michele Black, Securities Division
Shanell Johnson, Utah State University
Scott Burnett, Zions Capital Advisors
Jason Williams, Moreton Asset Management
Stephanie Fulton, Moreton Asset Management
Marcus Nield, Incapital

Minutes of Meeting

The minutes of the October 16, 2014 meeting and the November 25, 2014 special meeting were approved unanimously.

Monthly Reports

Securities Division:

Ms. Black reviewed the lists with the Council noting that RBC Capital Markets deleted 3 agents from the Certified Dealers list and both Goldman Sack and LPL Financial have added 2 agents to the Certified Dealers list. She then informed the Council that on the Certified Investment Advisers list, PFM Asset Management has added two agents. Council reviewed the lists briefly.

Ms. Black then informed the Council that James Darling from BNP Paribas Securities asked the Council to consider language to add to the affidavit that is signed by agents in the certification process. It was noted that the language would basically negate the purpose of the application and affidavit process which currently requires that the agents acknowledge that they have read the Act and agree to abide by it. After brief discussion Council voted unanimously to not include the language in the affidavit.

Financial Institutions' Report:

Mr. Rudé then reviewed the January 1, 2015 quarterly certification of public funds allotments for Qualified Depositories noting that there were no additions or deletions.

Mr. Rudé then reviewed the monthly report as of November month end noting that there were three institutions with a reduced allotment and three institutions over 50% usage of their allotment due to tax collections. He informed the Council that Mr. Bay sent out a reminder letter

to Gunnison Valley Bank. Mr. Rudé then noted for the Council that Washington Federal Savings has changed their charter and is now a bank.

Mr. Rudé then informed the Council that there are upcoming changes in T1 Capital levels and noted that the Council will want to discuss this and how it affects Rule 11. Mr. DeFries reviewed with the Council the changes and what is in the current Rule. Council discussed this briefly with Mr. Damschen and asked that this be placed on the agenda for January's meeting for continued discussion.

Late Deposit and Investment Report Update:

Ms. Pedroza noted for the Council that there are 41 reports that have not been filed for the June 2014 reporting period and this list has been sent to the Auditor's Office.

Reports with questions:

Ms. Pedroza briefly reviewed for the Council updates on the annuity issue with Tuachan High School informing the Council that a letter was sent to Mr. Floyd as of the end of October. When he did not respond, she contacted him and e-mailed a copy of the letter. As of today he has responded that he has contacted the public entity and they have agreed on compensation. Ms. Pedroza has asked him to provide copies of such when it has been paid.

Acceptance of Reports:

It was motioned and seconded, and all of the above reports were accepted unanimously.

Discussion and Review of Amendments to the Act

Ms. Pedroza informed the Council that Mr. Cunningham will sponsor this bill and there is a bill file open. Ms. Pedroza then reviewed the changes with the Council as they were discussed in the last meeting and asked the Council to review the language they requested regarding a reasonable plan to bring investments out longer than 5 years into compliance. Council discussed the language at length with Mr. Green and those in attendance and changed the language by striking "dispose of these securities" and added "bring the portfolio into compliance" with the date of "June 30" added.

Other Business

Ms. Pedroza noted for the Council that there was a request from a local government insurer asking that the Act and Rule 4 be changed to allow for theft insurance in place of a surety bond. Council discussed briefly and agreed that it would be placed on the agenda for January.

Schedule Next Meeting

The Council then scheduled the next regular meeting for January 15, 2015 at 3:00 p.m. in the offices of the State Treasurer at 350 North State Street, Room 180. With no other business before the Council, they adjourned at 4:16 p.m.



Ann Pedroza <apedroza@utah.gov>

Re: Agenda

1 message

Michele Black <mblack@utah.gov>

Mon, Jan 12, 2015 at 3:27 PM

To: Ann Pedroza <apedroza@utah.gov>

Hello Ann,

Just wanted to let you know that I will not be at the meeting this Thursday. I have nothing new to report.

Thank you,
Michele

Michele Black
Utah Division of Securities
Office Specialist I
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801 530-6980 fax
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On Mon, Jan 12, 2015 at 2:30 PM, Ann Pedroza <apedroza@utah.gov> wrote:

Attached is the agenda for 1/15/15 Money Management Council meeting. Any questions let me know.

Ann

OVERVIEW of NEW CAPITAL RULES for BANKS

January 2015

The new capital rules were approved in July 2013, and apply to all banks, but not to CUs.


Objective of the new capital rules is to require more and better-quality capital. The new rules are to be implemented January 2015, and will be first reported on the March 2015 CR.

The basics include:

- Introduction of a new Prompt Corrective Action capital ratio – called Common Equity T1. This will be in addition to the 3 existing capital ratios.

Regulatory Capital Ratio	Revised Minimums
Tier 1 Leverage Capital	4.0%
Common Equity Tier 1 RBC	new 4.5%
Tier 1 RBC	6.0%
Total RBC	8.0%
Effective date: January 1, 2015, for all banks	

- Changes to the Prompt Corrective Action capital ratio minimums of the 3 existing ratios.

				
PCA Categories	Tier 1 Leverage (%)	Common Equity Tier 1 RBC (%)	Tier 1 RBC (%)	Total RBC (%)
Well Capitalized	≥ 5.0	≥ 6.5	≥ 8.0	≥ 10.0
Adequately Capitalized	≥ 4.0	≥ 4.5	≥ 6.0	≥ 8.0
Undercapitalized	< 4.0	< 4.5	< 6.0	< 8.0
Significantly Undercapitalized	< 3.0	< 3.0	< 4.0	< 6.0
Critically Undercapitalized	Tangible Equity* / Total Assets ≤ 2%			
* Tangible Equity = the revised Tier 1 Capital + outstanding non-Tier 1 perpetual preferred stock				

- The new rules change how capital ratios will be calculated – both the numerator and denominator.
 - For the numerator, it narrows the definition of what qualifies as capital.
 - And, for the denominator (which is Risk Weighted Assets for 3 of the 4 ratios), some of the risk weightings will change.
- (As a reminder, regulators maintain the supervisory authority to impose further restrictions and/or require capital commensurate with a bank's risk profile.)
- Starting January 2016, as part of the new capital rules, a **capital conservation buffer** will be initiated, and will be fully phased in by 2019. The buffer will be 2.5% above adequately capitalized. For example, to have a fully funded capital conservation buffer, a bank would need to show 4.5% for the Common Equity T1 RBC ratio, along with a buffer of 2.5%, for a total of 7.0%. Although not required, it is beneficial for a bank to have a fully funded buffer. If a bank is deficient in this buffer capital amount, this potentially could affect a bank's ability to pay dividends, etc.

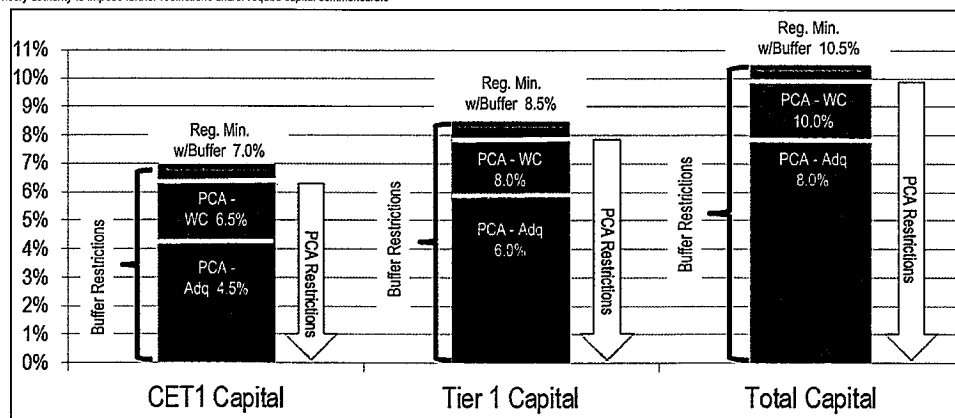
Capital Conservation Buffer

♦ Definitions: All banks must hold a common equity tier 1 capital buffer of 2.5% of total risk-weighted assets above the minimum requirements to avoid being subject to limits on certain capital distributions.

♦ Payments Subject to Limitation

- Dividend payments
- Discretionary payments on Tier 1 instruments
- Share buybacks
- Certain discretionary bonus payments to executive officers

Agencies maintain the supervisory authority to impose further restrictions and/or require capital commensurate with the bank's risk profile.



Things to consider in possibly changing the way public funds allotment is calculated:

- Does the calculation need to be changed?
- Limitations with the public funds allotment calculation for CUs, which do not utilize risk-weighted assets in the denominator of the net worth calculation.
- Should the conservation buffer be incorporated into the public funds allotment calculation?

Rule 11 currently:

If no unqualified CPA audit, a lower allotment is allowed:

Ratio of tier 1 capital to total assets:	Public Funds Allotment:
5.0% or more	1.0 X Capital
4.0% to 4.99%	.5 X Capital
Less than 4.0%	None

If unqualified CPA audit, a higher allotment is allowed:

Ratio of tier 1 capital to total assets:	Public Funds Allotment:
5.0% or more	1.5 X Capital
4.0% to 4.99%	.75 X Capital
Less than 4.0%	None

Currently Rule 11 uses ***tier 1 capital divided by total assets*** as the basis for the capital calculation. This ratio can be considered as a short-hand version of the tier 1 leverage ratio, which is tier 1 capital divided by average total assets.

6/30/14
Late D&I Reports
As of 1/15/15

East Garland Cemetery-6/11
Hyde Park Cemetery-12/13
Willard Cemetery-12/13

Aristotle Academy-12/13
Freedom Academy-12/13
Noah Webster Academy-12/13
Open Classroom-12/13
Spectrum Academy-12/13
Utah Virtual Academy-12/13

Utah League of Cities & Towns-12/13
Emery County Housing Authority-12/13
UAMPS-12/13

Carbon S/D-12/13
Tintic S/D-6/13

Beaver Dam Village SS Dist-12/12
Fruitland Water Imp Dsit-12/12
Grand Co SS Rec Dist-12/13
Iron Co SS Dist #3-12/12
Millard Co SS Dist #8-12/13
North Sanpete Ambulance Service-6/13
Peoa Recreation SS Dist-12/13
Pinon Forest SS Dist-12/12
Sevier Co SS Dist #1-12/13
Thompson SS Dist-12/13
White Hills SS Dist-12/08

Circleville Town-6/13
Cornish Town-12/13
Kanosh Town-12/13
Leeds Town-12/13
Lyman Town-12/13

Utah College of AT-12/13

Bluff Water Works SS Dist-6/12
Box Elder Co SErv Area #2-6/12
Bristlecone Wtr Imp Dist-6/12
Cache Co Drain Dist #5-12/13
Hansel Valley Wtrshd Dist-6/13
Iowa String Drain Dist-12/13
Long Valley Sewer Imp Dist-12/13
Mapleton Irrigation Co-6/10
Millard Co Drain Dist#4-6/13
Weber Co Serv Area #5-6/13



Ann Pedroza <apedroza@utah.gov>

Rule 4: Bonding of Public Treasurers

1 message

Sonya White <sonya@ucip.utah.gov>

Wed, Dec 10, 2014 at 7:19 PM

To: apedroza@utah.gov, mmcouncil@utah.gov

Cc: Johnnie Miller <jmiller@ucip.utah.gov>, "Adams, Bruce" <bbadams@sanjuancounty.org>, "Dee, Brad" <bdee@co.weber.ut.us>

Money Management Council,

The Utah Counties Indemnity Pool (UCIP) is requesting that consideration is made to amend Rule R628-4. Bonding of Public Treasurers, of the State Money Management Act, to conform to Utah Code Ann. §17-16-11 et. seq.

In 1992, the Utah Counties Indemnity Pool was formed pursuant to the provisions of the Utah Interlocal Cooperation Act, Utah Code Ann. §11-13-101 et. seq., as a governmental entity within the scope of

the Utah Governmental Immunity Act, Utah Code Ann. §63G-7-101 et. seq., and recognized as a Public Entity Insurance Mutual under the Utah Insurance Code, Utah Code Ann. §31A-1-103 et. seq. UCIP is a risk sharing arrangement among Utah County Governments and other eligible public agencies that are parties to the UCIP Interlocal Cooperation Agreement.

UCIP provides crime coverage for its members (county officials and county employees). Member counties legislative body has determine crime insurance to be acquired for the county officials, which includes the county treasurers. The statute reads that: *the county legislative body determines a general fidelity bond or theft or crime insurance should be acquired for the listed "county officials"*. Currently, Rule 4.2 of the Act refers only to a Fidelity Bond and does not include Theft or Crime Insurance. Also, Rule 4.2 of the Act states that bonds must be issued by a corporate surety licensed to do business in the state of Utah and having a current AM Best Rating of "A" or better. UCIP is a Public Entity Insurance Mutual and is not required to be rated by AM Best.

UCIP's crime coverage limit for county officials and county employees is \$2,750,000. This limit complies with the Council's prescribed amount of a "bond" based on the Budgeted Gross Revenues (Rule 4.3) of UCIP's largest member.

In an effort to alleviate confusion and public funds being expended on a separate bond when crime insurance is already acquired, the Council's review of this discrepancy is greatly appreciated.

We look forward to hearing from you.

Sonya White

Chief Financial Officer

Utah Counties Indemnity Pool

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South Jordan, UT 84095-0730

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